Estimated Financial Summary for the 2008-2012 Highway and Bridge Construction Schedule

Missouri's Statewide Transportation Improvement Program (STIP) includes a five-year plan of highway and bridge construction projects, which is financially constrained for each fiscal year. This section provides an overview of MoDOT's revenue and expenditure assumptions that support the 2008-2012 Highway and Bridge Construction Schedule.

Revenue

State

The largest source of state transportation revenue is the **motor fuel tax**. Assessed at a rate of 17-cents per gallon, it produces 45 percent of state transportation revenues. However, it is not indexed to keep pace with inflation, and there has been no rate increase since 1996. Trends show motor fuel tax revenues increase about 1 percent annually. In fiscal year 2008, MoDOT estimates $526 million of motor fuel tax receipts that grow to $551 million in fiscal year 2012. However, if fuel prices rise and stay at higher rates, more Missourians may well turn to more fuel-efficient vehicles, make fewer trips or seek out other transportation options they had previously avoided. While good for the environment, these actions erode motor fuel tax revenues.

Motor vehicle and driver's licensing fees also provide approximately 25 percent of state transportation revenue. Similar to motor fuel tax, these fees are not indexed to keep pace with inflation, and there have been no annual registration fee increases since 1984. This revenue source is projected to increase at a rate of 2.5 percent annually. In fiscal year 2008, MoDOT estimates $281 million of motor vehicle and driver's licensing fee receipts that grow to $311 million in fiscal year 2012.

MoDOT receives a portion of **motor vehicle sales and use taxes** paid upon the purchase or lease of motor vehicles. These tax revenues provide approximately 25 percent of state transportation revenues. Motor vehicle sales tax is the one state revenue that has recently provided substantial additional resources to transportation. In November 2004, voters passed Amendment 3. This set in motion a four-year phase in, redirecting motor vehicle sales taxes previously deposited in the state's general revenue fund to a newly created State Road Bond Fund. In state fiscal year 2009, the process of redirecting motor vehicle sales taxes to transportation will be fully phased in, and the rate of growth in this revenue source slows dramatically. Annual growth is projected at 2.5 percent, which like the rate of increase in motor fuel taxes is less than the rate of increase in construction and maintenance costs. In fiscal year 2008, MoDOT estimates $228 million of motor vehicle sales and use tax receipts that grow to $282 million in fiscal year 2012. A complicating factor is that as consumers look for ways to decrease their personal transportation costs, one option is turning to smaller, more fuel-efficient vehicles. Since these vehicles cost less, sales taxes are lower, resulting in lower transportation revenues.

The remaining 5 percent of state transportation revenue comes from **interest earned on invested funds and other miscellaneous collections**. During the Amendment 3 bonding program, cash balances in state transportation funds have been unusually high. Bond proceeds are received in large increments and are paid out over time as project costs are incurred. When the Amendment 3 projects are completed, the balance of state transportation funds will be substantially less, and interest income will also decline. Other miscellaneous collections include construction cost reimbursements from local governments, proceeds from the sale of surplus property and fees associated with the Missouri logo signing program. In fiscal year 2008, MoDOT estimates $151 million of interest earned on invested funds and other miscellaneous receipts that decrease to $89 million in fiscal year 2012.

Federal

Federal revenue sources include the 18.4-cents per gallon tax on gasoline and 24.4-cents per gallon tax on diesel fuel. Other sources include various taxes on tires, truck and trailer sales, and heavy vehicle use. These highway user fees are deposited in the federal Highway Trust Fund and distributed to the states based on formulas prescribed by federal law through six-year transportation funding acts. The current transportation bill, "Safe, Accountable, Flexible, Efficient Transportation Act: A Legacy for Users" (SAFETEA-LU), expires in 2009. Approximately 40 percent of Missouri's transportation revenue comes from the federal government. MoDOT is assuming federal funds are continued at SAFETEA-LU levels after the 2009 expiration of the funding bill.

Since 1992, Missouri's federal funding growth has averaged 9 percent each year. SAFETEA-LU continued this strong growth; however, the anticipated federal receipts are not sufficient to support these funding levels. Federal receipts must be supplemented by spending down accumulated balances in the Highway Trust Fund to maintain SAFETEA-LU funding levels.

A significant drop in federal funds will cause a dramatic drop in Missouri's highway and bridge construction and maintenance. The U.S. Department of Transportation is advising states that by 2010, the large Highway Trust Fund balance will be spent down, and funding will be insufficient to continue federal aid at the SAFETEA-LU levels. According to the American Association of State Highway and Transportation Officials, an amount equivalent to a 3-cents per gallon increase in federal fuel taxes must be identified to sustain federal programs at the level guaranteed by SAFETEA-LU. Between 2010 and 2015, it would take the equivalent of an additional 7-cents per gallon increase in federal fuel taxes to restore the program's purchasing power to 1998 levels. Unless Congress takes some action to increase revenues to the Highway Trust Fund, Missouri's federal transportation revenues will decrease dramatically.

In fiscal year 2008, MoDOT estimates $851 million of federal funds available to obligate that grows to $860 million in fiscal year 2009. This amount remains the same through fiscal year 2012 due to the uncertainty surrounding post-SAFETEA-LU funding.

Bond proceeds

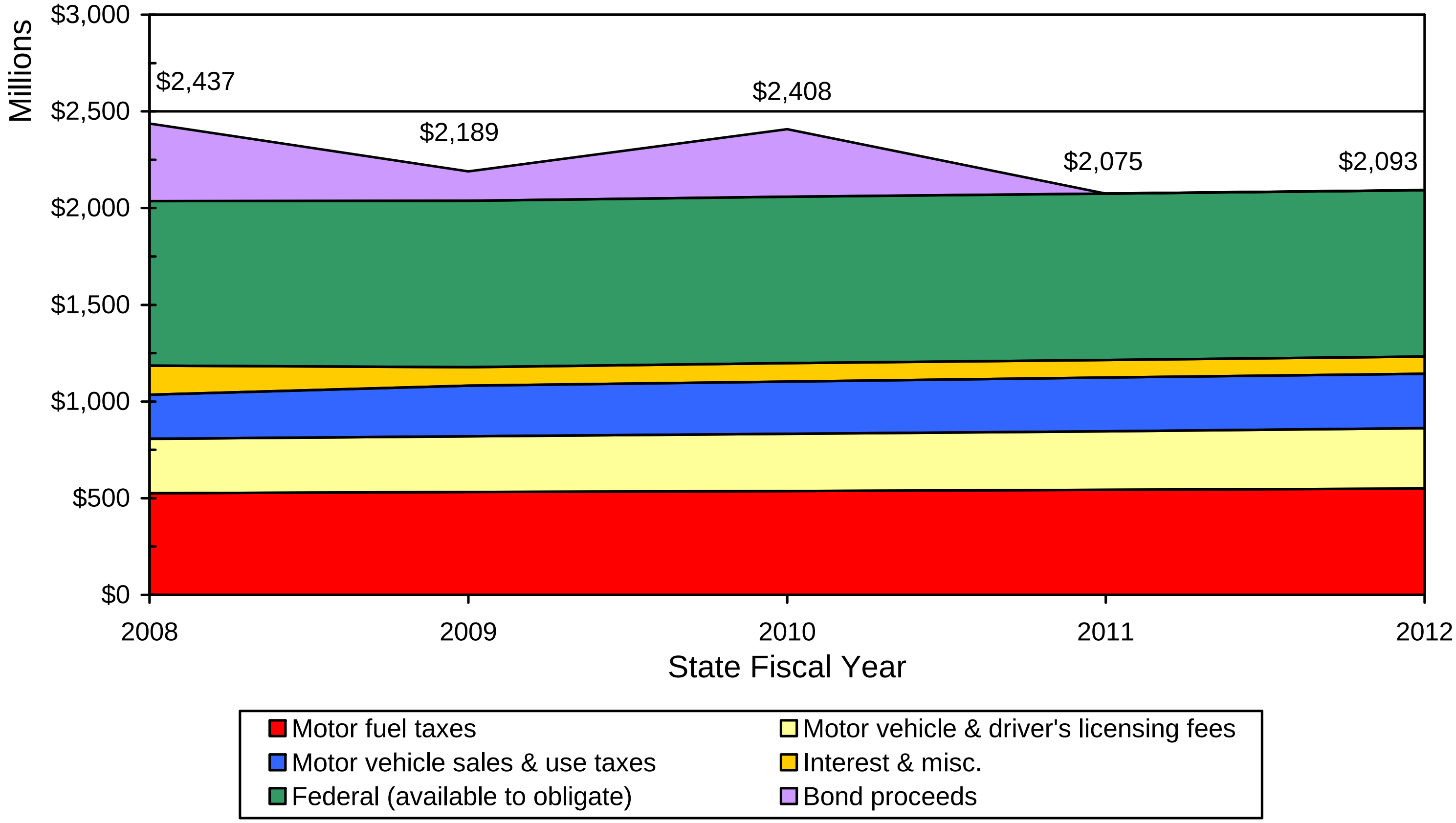
As discussed earlier in the state revenue section, Amendment 3 provided additional motor vehicle sales tax for transportation. In accordance with this constitutional change, MoDOT began selling bonds and dedicated the funds to the *Smoother, Safer, Sooner* program. It is important to note that only the new Amendment 3 revenues are used to pay principal and interest on Amendment 3 debt. When Amendment 3 bond proceeds are spent, the new Amendment 3 revenues will be committed to repayment of principal and interest through state fiscal year 2026.

In addition to the Amendment 3-related bond proceeds, MoDOT plans to sell approximately $150 million of bonds for a portion of the new design-build Interstate 64 project in the St. Louis region. For the first time, MoDOT plans to secure these bonds with federal funds, rather than state funds.

Total revenue

The stability and predictability of future transportation revenues are subject to many variables. However, using historical trends and various economic indicators, Figure 1 provides an estimate of Missouri's transportation revenues for state fiscal years 2008 through 2012. Assumptions for various revenue components grow at the rates discussed earlier. As shown in Figure 1, estimated revenue decreases from $2.4 billion in state fiscal year 2008 to $2.1 billion in state fiscal year 2012, due to the end of the Amendment 3 bonding program.

Figure 1: MoDOT's Anticipated Highway and Bridge Revenues for State Fiscal Years 2008-2012



Expenditures

Other state agencies

Law appropriates a portion of state transportation revenues to the Missouri State Highway Patrol (MSHP) to administer and enforce motor vehicle laws. The Missouri Department of Revenue (MDOR) is entitled to 3 percent of revenues collected to cover the cost of collection. Approximately 90 percent of these expenditures is appropriated to the MSHP, and the remaining 10 percent is appropriated to the MDOR. These expenditures are projected to increase 3.5 percent annually. In fiscal year 2008, MoDOT estimates $205 million of other state agency expenditures that grow to $230 million in fiscal year 2012.

Debt service

After other state agency expenditures, the state constitution dictates the next payment must be principal and interest repayments on any outstanding state road bonds. MoDOT has issued or plans to issue approximately $3 billion of bonds from state fiscal year 2001 to 2010. The final payment for this debt will be in state fiscal year 2026. In fiscal year 2008, MoDOT estimates $187 million of debt service expenditures that grow to $239 million in fiscal year 2012.

Operating costs

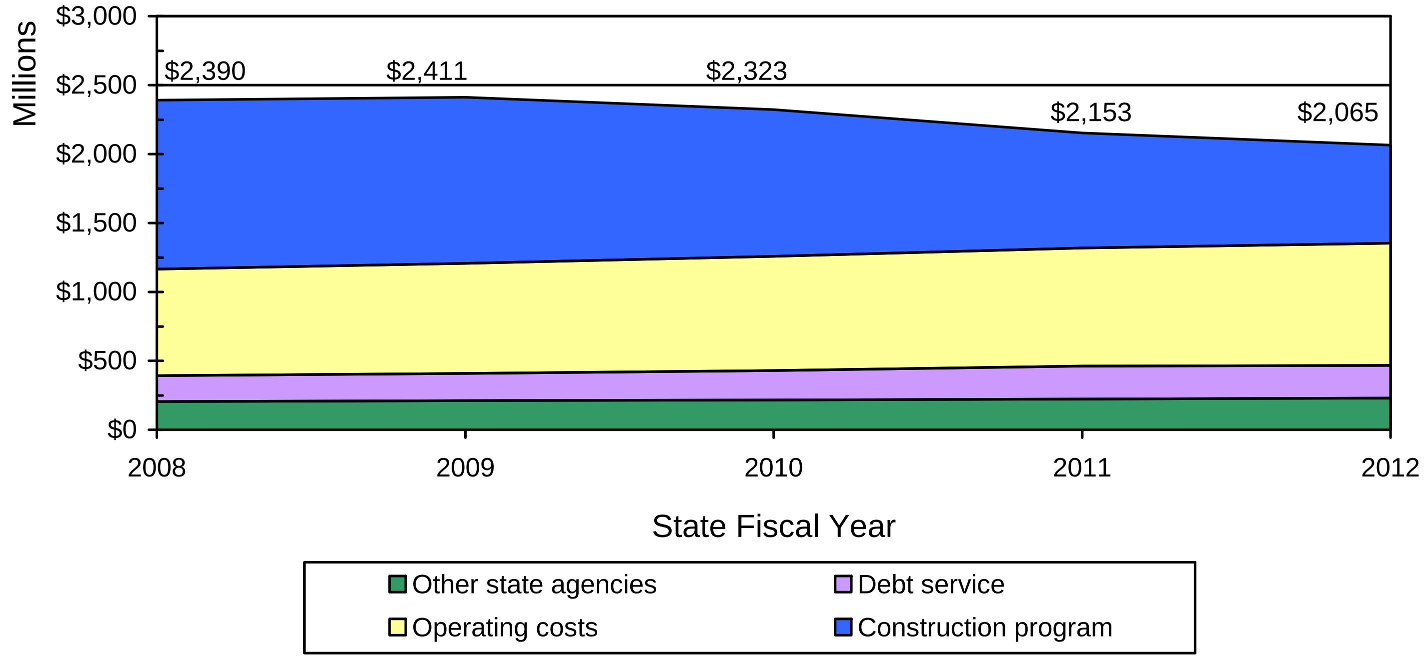
Operating costs include MoDOT's salaries, fringe benefits and materials and equipment needed to deliver the highway and bridge construction and maintenance programs. While this category includes MoDOT's internal engineering costs, the majority is associated with basic maintenance activities. This includes minor surface treatments such as chip seals, small concrete repairs and pothole patching; mowing right of way; snow removal; replacing signs; striping roads; repairing guardrail; and repairing traffic signals. Performing these activities requires employees; vehicles and other machinery; facilities to house equipment, employees and materials; and materials such as salt, asphalt and fuel. Support staff is also necessary in disciplines such as finance, human resources, information technology and risk management to keep department operations running. These expenditures are projected to increase 3.5 percent annually. In fiscal year 2008, MoDOT estimates $772 million of operating expenditures that grow to $886 million in fiscal year 2012.

Total expenditures

Consistent with future transportation revenues, future transportation expenditures are also subject to many variables. However, using historical trends and various economic indicators, Figure 2 provides an estimate of Missouri's transportation expenditures for state fiscal years 2008 through 2012.

As shown in Figure 2, estimated transportation expenditures decline from $2.4 billion in state fiscal year 2008 to $2.1 billion in state fiscal year 2012. From fiscal years 2008-2012, total expenditures exceed total revenue by $140 million, which is offset by cash balances available from the end of fiscal year 2007. The construction expenditures are derived from the 2008-2012 Highway and Bridge Construction Schedule. These amounts decline due to the end of the Amendment 3 bonding program. Assumptions for construction program expenditures are in the next subsection. The remaining expenditures are expected to have inflationary growth as outlined above.

Figure 2: MoDOT's Anticipated Highway and Bridge Expenditures for State Fiscal Years 2008-2012



Construction program

After deducting expenditures for other state agencies, debt service and operating costs from MoDOT's funding sources, all remaining revenues are made available for the highway and bridge construction program. This category encompasses payments to contractors for construction projects, right of way purchases, engineering consultants and utility relocations. Table 1 summarizes the highway and bridge construction program including total available and programmed funds for state fiscal years 2008-2012. Figure 3 illustrates available funds for the highway and bridge construction schedule.

Table 1: Highway and Bridge Construction Program Summary

State Fiscal Year	2008	2009	2010	2011	2012	Total
Total Available Funds	$1,530	$1,136	$837	$768	$791	$5,062
Total Programmed Funds (includes Engineering)	$1,617	$1,125	$725	$372	$279	$4,118
Percent Programmed	106%	99%	87%	48%	35%	81%

Figure 3: Highway and Bridge Construction Program Summary – Available